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Viewing cable 09RIYADH1068, SAUDI OIL MINISTER REAFFIRMS COMMITMENT TO OIL

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Reference ID	Created	Released	Classification	Origin
09RIYADH1068	2009-08-17 16:33	2011-08-30 01:44	SECRET//NOFORN	Embassy Riyadh

Appears in these articles:

<http://www.mcclatchydc.com/2011/05/16/114269/wikileaks-cables-show-oil-a-major.html>

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PP RUEHDE RUEHDH RUEHROV
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S E C R E T SECTION 01 OF 04 RIYADH 001068

SIPDIS
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DEPT FOR NEA/ARP, EEB/ESC/IEC(SULLIVAN), INR/EC(WOOD)
DOE FOR DAS HEGBURG AND JIM HART

E.O. 12958: DECL: 08/17/2019
TAGS: [EPET](#) [ENRG](#) [PREL](#) [ECON](#) [KAUST](#) [OPEC](#) [SA](#)
SUBJECT: SAUDI OIL MINISTER REAFFIRMS COMMITMENT TO OIL
PRICE/PRODUCTION STABILITY, NO EASY WAY TO ELIMINATE
SPECULATION

REF: A. DHAHRAN 150

Classified By: CDA Ambassador Richard Erdman per 1.4 (b) and (d).

SUMMARY

1. (C) In an August 12 meeting with Charge, Saudi Oil Minister Ali Al-Naimi underlined the key role his government played within OPEC moderating the positions of less responsible members wanting to maximize the price of oil at the expense of the international economy. He said the Kingdom welcomed oil in the \$70/barrel range, as a fair and sustainable price for both producers and consumers. He blamed speculation for recent record oil prices, as well as current prices, but offered few solutions on how to bring the market back to levels reflecting "fundamentals." Naimi said Saudi Arabia would not move away from deep domestic discounts on oil and gas prices anytime soon; underscored the Kingdom's serious intention to develop solar and nuclear energy; and estimated that the Kingdom's fossil fuels will "last 50 more years or so." The Minister was clearly focused on KAUST, the new Saudi university/research center set to open September 23, a legacy project of King Abdullah that Saudi Aramco and the Energy Ministry has been tasked with realizing and which they hope will be a world-class facility. End summary.

CONTINUED SAUDI COMMITMENT TO OIL PRICE
AND PRODUCTION STABILITY

2 (C) During an August 12 meeting with Minister of Petroleum and Mineral Resources Ali Al-Naimi, Charge expressed U.S. appreciation for the moderating role Saudi Arabia played within OPEC, and more generally for the stabilizing role it played in international energy markets. We had a mutual interest in stable oil prices that were high enough to sustain investment but not so high as to kill demand. Charge asked how Naimi viewed current energy developments given that oil prices had risen back into the \$70/barrel range -- high in historical terms -- even while the global recession has dampened global oil demand. Naimi replied that playing a moderating role within OPEC long had been a key part of the Kingdom's energy policy, which he said often meant working in and around OPEC meetings to "keep tempers down."

13. (C) Despite the recession, Naimi said, Saudi Arabia was in a "good place" on energy. Saudi Aramco has brought online the large Khurais field, and this has raised the Kingdom's production capacity to 12.5 million barrels per day (mbd). (Note: Saudi Aramco Senior Vice President for Exploration and Producing told Post as recently as three weeks ago that current production capacity was only at 12 mbd. End note.) Given current production levels, he continued, this gave Saudi Arabia an unprecedented 4 to 4.5 mbd excess production capacity. Noting the excess capacity was equal to the Kingdom's total production just a few years ago, Naimi said this level was "very comfortable for us... and for the world as well." He described the price of oil today as "fairly good" for "us" and for the petroleum industry as a whole.

"YOU DON'T WANT OUR OIL"

14. (C) Charge asked for Naimi's views on trends in oil sales. The Minister joked, "You don't want our oil!," alluding to U.S. policy statements about reducing dependence on foreign oil. Although last year Saudi Arabia sold an average 1.5 mbd to the United States, he explained, because of the recession, U.S. imports from the Kingdom might not even average 1 mbd this year. Charge responded that the United States of course wanted Saudi oil -- evidenced by the fact that in spite of the recession we remained the Kingdom's biggest customer and trading partner. But just as producers wanted to diversify their customers, consumers needed to diversify their suppliers.

15. (S/NF) Charge asked about pressure to produce beyond

levels agreed to in OPEC meetings, pointing out that countries with excess production capacity and revenue needs must be especially tempted to produce more. Naimi acknowledged this was the case with some OPEC members. But the Kingdom had such large production to begin with, it didn't feel that kind of pressure. In any case, he said, suppressing a smile, production decisions were of course the sovereign right of each country.

SAUDI OIL SALES TO CHINA INCREASING

16. (C) Charge asked about oil sales to China, noting we wouldn't mind seeing Saudi sales replacing some of Iran's oil exports to China. This would have the welcome side impact of reducing Iranian leverage over China. Naimi remarked that Saudi Arabia has been selling it approximately 700K barrels per day. This figure trailed Angola, currently China's largest single supplier at 770K. However, Angola's sales to China were "a blip that will not be repeated in future years," he said, implying that Saudi Arabia might soon be China's largest foreign supplier of oil. The Minister said that Saudi oil sales to China were growing in response to increasing Chinese demand, and the Kingdom wanted to diversify customers just as China and many other countries wanted to diversify energy supplies and suppliers.

OIL FUNDAMENTALS GOOD BUT SPECULATION PERSISTS

17. (C) With oil prices rebounding while the global economy remained relatively weak, Charge asked what this meant for the future. Wouldn't there be strong upward pressure on prices as recovery progressed? Naimi felt the current \$70 price had a speculative component given the relative weakness of the recovery to date. It did not reflect "fundamentals" and there was thus some room for increased demand without pushing prices up. The "fundamentals," in fact, remained very "healthy" -- there were no supply shortages, demand was manageable, and with oil at \$70/barrel, investment in the oil sector "will be at a good level."

NO EASY WAY TO ELIMINATE SPECULATION

18. (C) Asked what could be done to eliminate speculative activity, Naimi said he did not know. With oil as an investment and not simply a commodity, managing "futures, swaps, etc." was extremely difficult, he lamented. Charge noted that Treasury Secretary Geithner, during his recent visit, had told the Saudi leadership we ourselves had not found a fully effective mechanism for controlling speculation-driven price volatility. In any case, Naimi continued, oil producers' primary responsibility was to ensure that "market fundamentals" remained healthy. They needed to make investments and not create artificial shortages, he explained. Saudi Arabia was also contributing via a moderating message on energy publicly, abroad, and to producing countries. While it might not be easy to convince some producing countries wedded to mercantilist energy policies, Saudi Arabia's spare production capacity gave it a good "club."

PLENTY OF GAS RESERVES, TOO MUCH DEMAND, NO PLANS TO EXPORT

19. (C) Charge asked about natural gas pricing. Whereas historically gas and oil prices moved in parallel, they now were diverging. Was this temporary or a new and more permanent phenomenon? Naimi replied that oil and gas had increasingly become two distinct markets, with greatly reduced linkages. This divergence would continue, so those prices would no longer track together. Despite the media's tendency to link the two, each energy source had different uses, with oil predominantly used for transportation, and gas used for "power, heating, and petrochemicals," inter alia. Each was shaped by supply and demand curves that differed

from other energy products. Further contributing to diverging prices, Naimi observed, was that the downward pressure on gas prices stemming from the increased availability of gas from shale and other sources.

¶10. (C) Charge asked about gas production in the Kingdom, noting that historically most of the gas produced was associated gas and was consumed domestically. Saudi Arabia now "has plenty of gas," including offshore, Naimi claimed. "Most of the gas produced in the Kingdom has been associated gas, but with recent discoveries, the ratio of associated to non-associated gas has been increasing and will soon be almost 50/50. Many fields were coming online between now and 2013, he said, citing the Karan, Hasba, Arabiya, and Rabi fields. Charge asked how Saudi Arabia viewed efforts to establish an OPEC-like recognition of gas suppliers. "We're not interested," Naimi said emphatically. "Saudi Arabia is not a gas exporter, nor will we be. Our gas, including offshore supplies, will be for domestic use."

SAUDI GAS PRICES WILL REMAIN ARTIFICIALLY LOW FOR SOCIAL WELFARE REASONS

¶11. (C) Charge asked whether there were plans to price Saudi gas, currently around \$.75/million BTUs, closer to real market price levels. Artificially low prices encouraged consumption and inefficient use of resources. This, plus energy-intensive industries such as aluminum smelters, would put pressure on gas supplies. Naimi concurred but said changing "feedstock" prices was a political decision. Energy policy decisions were based on maximizing the welfare of the Saudi people, who viewed cheap energy as their birthright.

¶12. (C) Not much will happen "today," Naimi continued, but as the "lot of man" in the Kingdom improved, there would be opportunities to allow market signals to penetrate more deeply into the local economy. Meanwhile, Saudi Arabia had a huge liquid base of petroleum that it could tap into for domestic energy needs when/if gas stocks proved insufficient. Unfortunately, he agreed, local price mechanisms severely undercut attempts to improve energy efficiency. (Comment: Naimi's cautious tone on the sensitive subject of raising discounted gas prices contrasts with recent comments made by senior Aramco executives, who believed a price increase was imminent. In addition, some well-placed observers, including in the energy and power sectors, are not convinced that the gas sector is not in trouble since, they argue, the Saudis already cannot keep up with existing demand for methane gas feedstock, not to mention the fact that the non-associated gas Naimi was talking about is ethane-poor, which makes it largely useless to the petrochemical industry. End comment.)

FOCUS NOW SHOULD BE ON WATER AND CREATING EXPANDED "ENERGY MIX"

¶13. (C) Although foreigners focused on Saudi Arabia's oil and gas, Naimi argued, the Kingdom's own attention should be on water since the supply of the latter is much more acute. The King Abdullah University of Science and Technology (KAUST, intended to be a world class research center and scheduled to open September 23 north of Jeddah) was researching water conservation technologies and desalination. Current technology in this area was not sufficient for the Kingdom's needs, he emphasized, "We really need a breakthrough." (Note: For more on Saudi water issues, see ref A. End note.)

¶14. (C) Naimi dismissed the widespread idea that Saudi Arabia was "worried" about energy alternatives as a threat to the predominance of oil and gas. Demand for oil was not going to go away anytime soon, and KAUST would be involved in a wide range of alternative energy technologies and research projects -- e.g., energy efficiency, biofuels, wind, solar, and nuclear. There was room -- and a real need -- for all of these in the energy mix because worldwide energy demand was increasing significantly. "Maybe not in some countries in Western Europe, but certainly in China, India, etc."

¶15. (C) Charge asked about Saudi plans for nuclear energy. Naimi said the Saudi government was focused on both solar and nuclear power, but his ministry was focusing on solar since the de facto science ministry KACST (King Abdulaziz City of Science and Technology) holds the nuclear portfolio. Saudi Arabia was particularly committed to getting involved in solar, Naimi said, noting that a University of Arizona expert on solar energy would be heading up KAUST's solar research department. (Note: King Fahd University of Petroleum and Minerals, the Kingdom's flagship engineering school, recently signed a \$50 million agreement with MIT to collaborate on water conservation and solar technology research (ref B). End note.) He estimated that the Kingdom's fossil fuels "will last 50 more years or so." Saudi Arabia is beginning to look at what our alternatives are, he said, and was even interested in biofuels.

¶16. (C) Naimi said he had given three main challenges to KAUST researchers:

¶A. SOLAR ENERGY: Naimi said he had set the goal of creating solar power production capacity in 10 years equivalent to Kingdom's domestic power consumption. This would in turn give the country enough electricity capacity to export power.

¶B. AGRICULTURE: A Stanford University researcher and expert on genomics who will be working for KAUST has been tasked with growing wheat in seawater. The researcher had been aiming at producing crops in brackish water with 7-10k parts per million (ppm) of salt. However, Naimi challenged him to come up with wheat that could be grown using water taken directly from the Red Sea, which is 35k ppm.

¶C. BIOFUELS: Naimi said KAUST had hired a French researcher in chemistry who is working on ways to transform algae into ethanol. The Minister said he wanted this project located right next to KAUST. The French academic said he needed outside expertise/partners, so KAUST has invited DOW to do a joint venture on this.

STANDING INVITATION TO ENERGY SECRETARY CHU

¶17. (C) Naimi said he hoped Energy Secretary Chu would be able to visit the Kingdom, noting he had a standing invitation including for the September 23 inauguration of KAUST. In addition, he said he hoped DOE would be interested in spending research money at KAUST. Emphasizing the importance of KAUST to Saudi leaders, Naimi himself a graduate of Lehigh and Stanford, said there would be students and faculty from 58 countries, including many from the United States. KAUST had been modeled after U.S. educational institutions with the help of two prominent American researchers -- Frank Press from the National Science Foundation and Frank Rhodes from Cornell. Though both were in their late 80s, they had the minds and energy of 20-year-olds, he enthused.

ERDMAN